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GROUP GOVERNANCE

TABLING OF ANNUAL REPORTS OF THE MUNICIPAL ENTITIES FOR THE 2011/12 FINANCIAL YEAR

1 STRATEGIC THRUST

Well-governed and managed City

2 OBJECTIVE

The objective of this report is to table the 2011/12 annual reports of the fifteen Municipal Entities before Council in compliance with Section 121(1) of the Municipal Finance Management Act, 56 of 2003 (MFMA) and Section 46 of the Municipal Systems Act, 32 of 2000 (MSA) for consideration in accordance with Section 129 of the MFMA.

This report will not provide a detailed analysis of the annual reports of the MEs, but will simply deal with legislative compliance in tabular format.

3 SUMMARY

3.1 INTRODUCTION

In terms of section 121(1) of the MFMA, every municipality and municipal entity must prepare an Annual Report for each financial year. The purpose of the Annual Report is to provide a record of activities, report on performance against the budget and promote accountability to the local community for the decisions made throughout the year.

The Group Governance department provided input and feedback to MEs on all drafts of the annual reports that were submitted to the department – specifically with regards to compliance with the requirements of legislation and best practice.

No further input or feedback was provided to MEs on the final submission of annual reports and it is these final submissions that are being tabled before Council and for which the respective MEs and their Boards are accountable.

The annual reports are contained on the CD-ROM that is distributed with the report.

3.2 ANALYSIS OF LEGISLATIVE COMPLIANCE

MFMA Section	Requirements	Comments
S121(4)(a)	The submission of annual financial statements (AFS) to Auditor-General (AG) for audit in terms of section 126(2)	All COJ MEs submitted their Annual Financial Statements to the Auditor General on or before 31 August 2011 in terms of Section 126(2)

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S121(4)(b)	The Auditor General's audit report on the financial statements in terms of section 126 (3)	<p>The Auditor General submitted his reports to all MEs on 30 November 2012. All MEs included the reports received from the Auditor General in their Annual Reports. Of the 15 MEs, 13 MEs obtained unqualified audit opinions with some emphasis of matters (as set out below) and two MEs obtained qualified audit opinions (details set out below).</p> <p>1. Basis for qualified opinion</p> <p>1.1 City Power</p> <p>Service charges revenue</p> <p>Included in revenue from sale of electricity of R12,035,409,000 (2011:R9,791,009,000) is an amount of R542,679,236 that was estimated for an extended period of time. Differences were identified between the billing data and the source data relating to meter readings without complete audit evidence to support the differences. The municipal entity could not provide sufficient appropriate audit evidence to confirm the basis to disregard actual meter reading and use of estimates. Consequently the Auditor-General was unable to confirm the accuracy and occurrence of the estimated service charges revenue.</p> <p>Consumer debtors</p> <p>There were material deficiencies that were identified during the audit of the revenue billing and management system which raised uncertainties regarding the accuracy, cut-off, completeness and occurrence of revenue and receivables financial data. Due to the significance of the matters, the Auditor-General was unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the valuation, allocation and rights pertaining to debtors of</p>

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MFMA Section	Requirements	Comments
		<p>R5,924,893,000 (2011:R4,753,471,000) as disclosed in note 7 to the financial statements</p> <p>1.2 Johannesburg Water</p> <p>Service charges revenue</p> <p>Included in revenue from sale of electricity of R3,349,843,000 (2011:R2,739,023,000) is an amount of R324,629,430 that was estimated for an extended period of time. Differences were identified between the billing data and the source data relating to meter readings without complete audit evidence to support the differences. The municipal entity could not provide sufficient appropriate audit evidence to confirm the basis to disregard actual meter reading and use of estimates. Consequently the Auditor-General was unable to confirm the accuracy and occurrence of the estimated service charges revenue.</p> <p>Consumer debtors</p> <p>There were material deficiencies that were identified during the audit of the revenue billing and management system which raised uncertainties regarding the accuracy, cut-off, completeness and occurrence of revenue and receivables financial data. Due to the significance of the matters, the Auditor-General was unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the valuation, allocation and rights pertaining to debtors of R1,908,698,000 (2011:R1,377,449,000) as disclosed in note 9 to the financial statements</p>

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MFMA Section	Requirements	Comments
		<p>2. Emphasis of matters</p> <p>2.1 City Power</p> <p>Emphasis of Matters</p> <ul style="list-style-type: none"> • Distribution losses - Material losses to the amount of R1,372,899,000 (2011: R1,247,360,000) were incurred as a result of electricity distribution losses. • Material impairments to the amount of R2,836,918,000 (48%) were incurred on consumer debtors , as the recoverability of these amounts are doubtful <p>2.2 Johannesburg Water</p> <p>Emphasis of Matters</p> <ul style="list-style-type: none"> • The corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the year ended 30 June 2012 • Distribution losses - Material losses to the amount of R301,900,000 (2011: R222,100,000) were incurred as a result of unaccounted for water. • Material impairments to the amount of R5,360,647,000 (2011: R4,531,239) representing 74% (2011:77%) of consumer debtors were incurred, as the recoverability of these amounts are doubtful.

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MFMA Section	Requirements	Comments
		<p data-bbox="783 421 938 452">2.3 Pikitup</p> <p data-bbox="783 490 1066 521">Emphasis of matters</p> <ul data-bbox="927 562 1414 1794" style="list-style-type: none"> <li data-bbox="927 562 1414 835">• The entity is a defendant in various court cases. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements <li data-bbox="927 882 1414 1048">• The corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the year ended 30 June 2012 <li data-bbox="927 1095 1414 1507">• Material impairments to the amount of R158,398,624 (2011: R150,416,807) were incurred as the recoverability of the amounts is doubtful. This represents 76% (2011:85%) of the balance. The contribution to the provision for debt impairment during the year under review was R41,827,476 (2011:R40,362,050) <li data-bbox="927 1554 1414 1794">• Going concern - The municipal entity had an accumulated deficit of R336,482,963 (2011:R357,275,333) and total liabilities exceeded its total assets by R323,707,471 (2011: R341,237,780) <p data-bbox="783 1832 1265 1863">2.4 Metropolitan Trading Company</p> <p data-bbox="783 1901 1066 1933">Emphasis of matters</p> <ul data-bbox="927 1973 1414 2067" style="list-style-type: none"> <li data-bbox="927 1973 1414 2067">• Going concern – The City of Johannesburg undertook an institutional review and a final

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		<p>decision has been made that MTC operations will be re-integrated back into the City, This re-integration will commence on 1 November 2012 with the entity ultimately being deregistered by 30 June 2013.</p> <ul style="list-style-type: none"> • Material losses to the amount of R283,012 (2011: R1,535,307) were incurred as a result of a write-off of irrecoverable debt from Informal Traders • Irregular expenditure – the entity incurred irregular expenditure of R1,547,625 (2011:R1,406,630) as the expenditure incurred was in contravention of MFMA relating to Supply Chain Management bid specifications and quotations • The municipal entity incurred fruitless and wasteful expenditure of R645,215 (2011: R697,236) due to interest and penalties arising from late payments of supplier invoices, cancelation fee for the cancelling for the contract and for lease payments made for IT equipment which was not utilised. <p>2.5 Johannesburg Fresh Produce Market</p> <p>Emphasis of matters</p> <ul style="list-style-type: none"> • Significant uncertainties - The entity is the defendant in various court cases and disputes. The ultimate outcome of these matters cannot

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		<p>presently be determined or reliably measured.</p> <ul style="list-style-type: none"> • Receivables totalling R26,628,214 (2011:R25,026,555) have a provision for debt impairment of R7,601,938 (2011: R5,375,431), which represents 26% (2011:21%) of the balance. The contribution to the provision for debt impairment during the year under review was R2,953,786 (2011:R2,680,511) <p>2.6 Johannesburg Tourism Company</p> <p>Emphasis of matters</p> <ul style="list-style-type: none"> • Going concern – The City of Johannesburg undertook an institutional review, and as a result, the City’s intention is to integrate JTC’s operations back into the City. • The corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the year ended 30 June 2012. • The municipal entity incurred fruitless and wasteful expenditure of R20 777 due to interest and penalties arising from late payment of supplier invoices. <p>2.7 Johannesburg Property Company</p> <p>Emphasis of matters</p> <ul style="list-style-type: none"> • Irregular Expenditure – The municipal entity incurred

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		<p>irregular expenditure of R14,215,888 as a result of non-compliance with SCM regulations</p> <p>2.8 Johannesburg Development Agency</p> <p>Emphasis of matter</p> <ul style="list-style-type: none"> • The corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the year ended 30 June 2012 <p>2.9 Johannesburg Roads Agency</p> <p>Emphasis of matters</p> <ul style="list-style-type: none"> • Significant uncertainties - The entity is the defendant in various court cases and disputes. The ultimate outcome of these matters cannot presently be determined or reliably measured. • The entity had an accumulated deficit of R212,411,235 and its liabilities exceeded its assets by R152,201,056. • Impairment of receivables to the amount of R106,999,359 (2011:R2,602,078) was incurred as a result of allowance for bad debts. <p>2.10 Metropolitan Bus Services Company</p> <p>Emphasis of matters</p> <ul style="list-style-type: none"> • The corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the year ended 30 June 2012

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MFMA Section	Requirements	Comments
		<p>2.11 Joburg Theatre</p> <p>Emphasis of matters</p> <ul style="list-style-type: none"> • The corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the year ended 30 June 2012 • The City of Johannesburg is in the process of institutional review. The process includes Roodepoort City Theatre selling its business to Joburg Theatre for fair value. <p>2.12 Roodepoort City Theatre</p> <p>Emphasis of matters</p> <ul style="list-style-type: none"> • The City of Johannesburg is in the process of institutional review. The process includes Roodepoort City Theatre selling its business to Joburg Theatre for fair value. <p>2.13 Johannesburg City Parks</p> <p>Emphasis of matters</p> <ul style="list-style-type: none"> • Significant uncertainties: There are possible claims against the municipal entity by a number of its employees with regard to the payment of accumulated sick leave. The entity is opposing the claims, as it believes the claims to be baseless. The ultimate outcome of the matter cannot be presently determined; an no provision for any liability that may result has been made in

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MFMA Section	Requirements	Comments
		<p>the financial statements.</p> <ul style="list-style-type: none"> • The corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the year ended 30 June 2012 <p>2.14 Johannesburg Zoo</p> <p>Emphasis of matters</p> <ul style="list-style-type: none"> • The corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the year ended 30 June 2012 • The City of Johannesburg undertook an institutional review and a final decision has been made that Johannesburg Zoo will merge with another municipal entity in terms of section 113 and 116 of the Companies Act, 2008 <p>2.15 Johannesburg Social Housing Company</p> <p>Emphasis of matters</p> <ul style="list-style-type: none"> • Leasing stock rentals – the entity had an operating lease resulting from the service delivery agreement entered with the CoJ and the rental income received was not shared between the parties. • Receivable totalling R81,627,943 (2011: R64,532,167) have a provision for debt impairment of R25,803,393 (2011:R18,817,971). This represents 32% (2011:29%) of the balance. The

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		<p>contribution to the provision for debt impairment during the year under review was R7,972,083 (2011:R8,362,771)</p>
S121(4)(c)	<p>An assessment by the entity's Accounting Officer of any arrears on municipal taxes and service charges</p>	<p>15 MEs complied with section 124(4)(c) in that assessments of any arrears on municipal taxes and service charges were included.</p>
S121(4)(d)	<p>An assessment by the entity's Accounting Officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement (or other agreement)</p>	<p>All 15 MEs provided assessments in their Annual Reports of the entities' performance for the year ending 2011/12, highlighting the following items;</p> <ul style="list-style-type: none"> ➤ Highlights and achievements ➤ Financial Performance ➤ Capital Projects ➤ Performance against IDP and City's Scorecard ➤ Statements of amounts owed by Government Departments and Public entities.
S121(4)(e)	<p>Particulars of any corrective action taken or to be taken in response to the Auditor-General's Report</p>	<p>All 15 MEs provided responses to the issues raised by the Auditor-General in his Audit Report. Measures to correct matters raised by the Auditor General were provided and incorporated in the management letters of each ME.</p>
S121(4)(f)	<p>Information determined by the municipal entity or the parent municipality: -</p> <ul style="list-style-type: none"> • Corporate Social Responsibility (CSR) • Occupational Health & Safety (OHS) • HIV/AIDS • Environmental Management (EM) • Batho Pele 	<p>The Annual Reports of all 15 MEs have provided information on the entities' initiatives on the reporting areas prescribed by the parent municipality.</p>
S121(4)(g)	<p>Recommendations of the audit committee of the</p>	<p>No formal recommendations from any of the Audit Committees were included in any of</p>

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	entity or its parent municipality	the Annual Reports.
S121(4)(h)	Other prescribed information: Staff salaries, wages, allowances and benefits	The required information was disclosed for all 15 MEs as prescribed.
S123(2)	The annual financial statements of the entity must disclose any allocations received by the entity from any parent municipality and any allocations made to the parent municipality	The information was properly disclosed in respect of all COJ MEs.
S124(2)	The notes to the annual financial statements must include the particulars of the salaries, allowances and benefits of: - <ul style="list-style-type: none"> • the members of the board of the entity; and • the Chief Executive Officer of the entity, every senior manager. 	Particulars of salaries, allowances and benefits of board members, CEOs and senior management were disclosed in respect of each entity for the year under review.
S125(2)(a)	Disclosure in respect of each bank account held by the municipal entity during the relevant financial year	The information was properly disclosed in respect of all COJ MEs.
S125(2)(b)	Summary of all investments of the municipal entity as at the end of the financial year	Investments for all MEs are reflected in the City's consolidated financial statements as per the City's policy.
S125(2)(c)	Particulars of any contingent liabilities of the municipal entity as at the end of the financial year	Contingent liabilities were disclosed where they were present. Contingent liabilities that were disclosed related to (in general for the 15 MEs): <ul style="list-style-type: none"> - litigation in progress; - provisions for staff benefits (including leave) - claims by suppliers - labour related claims

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S125(2)(d)	Material losses, irregular or fruitless and wasteful expenditure	Material losses, irregular or fruitless and wasteful expenditure are listed above under emphasis of matters
S125(2)(e)	Particulars of non-compliance with the MFMA	<p>Particulars of issues of non-compliance were disclosed for each ME. The issues (in general) that were disclosed are listed below: Non-compliance with:</p> <ul style="list-style-type: none"> - Section 95(d) of the MFMA – the accounting officer did not take reasonable steps to prevent irregular expenditure - Section 122(1) of the MFMA – the financial statements submitted for auditing were not prepared in all material aspects in accordance with the requirement - The municipal entity incurred expenditure that was not budgeted for in the approved budget or adjustment budget as required by section 87(8) of the MFMA.

3.3 CONTENT OF THE 2011/12 ANNUAL REPORTS

The Annual Reports comprise two components, namely, the Financial Statements and Annual Performance Reports. Both components are audited by the Auditor-General. The Annual Reports are prepared in terms of section 121(3)(c) of the MFMA and is consistent with MFMA Circular No. 11 issued by the National Treasury.

4 POLICY IMPLICATIONS

There are no direct policy implications.

5 LEGAL AND CONSTITUTIONAL IMPLICATIONS

The 2011/12 annual reports have been prepared in compliance with the provisions of the Municipal Systems Act, the Municipal Finance Management Act and the Companies Act, 2008.

6 FINANCIAL IMPLICATIONS

There are no direct financial implications.

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7 COMMUNICATIONS IMPLICATIONS

The full text of the 2011/12 annual reports of Municipal Entities will be submitted to the MEC: Local Government & Housing, MEC: Finance and the Auditor-General. The full text will also need to be published on the City of Johannesburg website and on the ME websites.

The contents of this report will be communicated to the Gauteng Provincial Treasury, the National Treasury and the Auditor-General.

8 OTHER DEPARTMENTS CONSULTED

Municipal Entities
Group Strategy, Policy Coordination and Relations

IT IS RECOMMENDED

1. That the 2011/12 annual report of City of Joburg Property Company SOC Ltd. contained in Annexure G1 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
2. That the 2011/12 annual report of Joburg Theatre SOC Ltd. contained in Annexure G2 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
3. That the 2011/12 annual report of Johannesburg City Parks NPC contained in Annexure G3 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
4. That the 2011/12 annual report of Johannesburg Development Agency SOC Ltd. contained in Annexure G4 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
5. That the 2011/12 annual report of Johannesburg Metropolitan Bus Services SOC Ltd. contained in Annexure G5 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
6. That the 2011/12 annual report of Johannesburg Roads Agency SOC Ltd. contained in Annexure G6 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
7. That the 2011/12 annual report of Johannesburg Social Housing Company SOC Ltd. contained in Annexure G7 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
8. That the 2011/12 annual report of Pikitup Johannesburg SOC Ltd. contained in Annexure G8 be tabled in terms of section 127(2) of the Municipal Finance Management Act.

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9. That the 2011/12 annual report of Roodepoort City Theatre NPC contained in Annexure G9 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
10. That the 2011/12 annual report of The Johannesburg Fresh Produce Market SOC Ltd. contained in Annexure G10 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
11. That the 2011/12 annual report of The Johannesburg Tourism Company NPC contained in Annexure G11 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
12. That the 2011/12 annual report of The Johannesburg Zoo NPC contained in Annexure G12 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
13. That the 2011/12 annual report of The Metropolitan Trading Company SOC Ltd. contained in Annexure G13 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
14. That the 2011/12 annual report of City Power Johannesburg SOC Ltd. contained in Annexure G14 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
15. That the 2011/12 annual report of Johannesburg Water SOC Ltd. contained in Annexure G15 be tabled in terms of section 127(2) of the Municipal Finance Management Act.
16. That the 2011/12 annual reports of the municipal entities be made available to the public and public comments be invited, as set out in the report in accordance with Section 127(5)(a) of the Municipal Finance Management Act.
17. That the 2011/12 annual reports of the municipal entities be submitted to the Auditor-General, Gauteng Provincial Treasury and Gauteng Department of Local Government and Housing in accordance with Section 127(5)(b) of the Municipal Finance Management Act.

(THE ACCOUNTING OFFICER)
(CITY OF JOHANNESBURG)
(TREVOR FOWLER)